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## INTRODUCTION

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### BACKGROUND

The District of Columbia Housing Authority Act of 1999 (D.C. Law 13-105) (Act) reestablishes the District of Columbia Housing Authority (DCHA) as an independent corporate body with legal existence separate from the District government, and as a “successor in interest to the housing authority created by [the District of Columbia Housing Authority Act of 1994].” D.C. Code § 6-202(a) (2001). DCHA’s purpose is to “govern public housing and implement the Housing Act of 1937 in the District”, and DCHA is responsible for providing “decent, safe, and sanitary dwellings, and related facilities, for persons and families of low- to moderate-income in the District.” *Id.* § 6-202(b). The Act also vests DCHA’s authority in a Board of Commissioners, which is responsible for appointing and supervising DCHA’s Executive Director, who directs the day-to-day operations of the Authority. *See id.* §§ 6-211(a) and 6-213(c)(1). For fiscal year (FY) 2002, DCHA’s consolidated budget was approximately \$347 million.

DCHA’s mission is dedicated to enhancing the quality of life in the District of Columbia by providing and effectively managing affordable housing that is diverse, well-maintained, and aesthetically pleasing for those whose circumstances prevent them from competing in the general marketplace. DCHA’s goals for redevelopment include a continual move toward opportunity for economic, racial, and social integration in economically vibrant communities through the implementation of redevelopment plans that are developed jointly by residents, community members, public and private partners, and are in line with market forces. In keeping with its mission, DCHA administers several federally funded programs for the benefit of District citizens. One such program is HOPE VI, which serves a vital role in HUD’s efforts to transform public housing.

The HOPE VI Program was developed as a result of recommendations contained in a report submitted to the U.S. Congress on August 10, 1992, by the National Commission on Severely Distressed Public Housing (Commission). The Commission recommended revitalization in three general areas of public housing: physical improvements, management improvements, and social and community services to address resident needs. Congress responded immediately to the Commission’s report and appropriated \$300 million to HUD on October 6, 1992, to implement the recommendations. To date, the HOPE VI Program has awarded over \$4 billion in grants to redevelop failed public housing projects into mixed-income communities throughout the United States. Housing authorities can use HOPE VI Program funds in conjunction with modernization funds or other HUD funds, as well as with municipal and state contributions, public and private funds.

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Since 1993, HUD has awarded DCHA a total of \$110,231,431 under the HOPE VI Program, in an effort to transform public housing in the District. The grant funds have been utilized to finance four revitalization and three demolition projects at severely distressed public housing communities in the District of Columbia. Table 1 below shows specific details for each award.

<b>Table 1. Schedule of HOPE VI Grant Awards</b>		
<b>Project Name</b>	<b>Date of Award</b>	<b>Amount of Award</b>
Ellen Wilson	12/29/94	\$ 25,075,956
Frederick Douglass Stanton Dwellings	04/04/00	29,972,431
Wheeler Creek	03/06/98	20,300,000
East Capitol Dwellings	01/11/01	30,867,337
Fort Dupont Stoddert Terrace Demolition	08/29/97	1,995,000
East Capital Demolition	01/28/00	1,288,707
Highland Demolition	01/28/00	732,000
<b>Total</b>		<b>\$110,231,431</b>

## OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine whether the DCHA: (1) managed and used resources in an efficient, effective, and economical manner; (2) administered funds in compliance with applicable laws, rules, regulations, policies and procedures; and (3) implemented internal controls to prevent or detect material errors and irregularities. The audit was performed to determine whether DCHA: (1) disbursed HOPE VI funds for valid and properly supported HOPE VI program costs; (2) maintained and accounted for the funds in accordance with existing laws, rules, regulations, policies and procedures; and (3) managed the impact of the HOPE VI Program on the District's Section 8 Housing Program. We accomplished the first two audit objectives, but deferred the review of the third objective to a later date.

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To accomplish our objectives, we held interviews and discussions with DCHA's management and administrative staff to gain a general understanding of the policies, procedures, and other controls used by DCHA to maintain and account for HOPE VI funds, and to document program expenditures. We performed a complete review of available documentation to support expenditures for the Wheeler Creek HOPE VI Revitalization Project. At the time of our review, DCHA records indicated that \$37.4 million had been disbursed for the Wheeler Creek HOPE VI Revitalization Project. We also examined and analyzed DCHA's monthly bank statements and other disbursement records for the HOPE VI Program.

We did not review records for the recent \$35 million HOPE VI grant awarded to DCHA for the Arthur Capper Dwellings. The grant was awarded to DCHA after the commencement of our fieldwork. We also did not determine the impact of HOPE VI program on the District's Section 8 Housing Program. We plan to complete a review of the Section 8 Housing Program at a later date.

The audit covered the period December 1, 1993, to January 31, 2002. However, in some cases, we reviewed documents dated beyond the covered audit period because most of the projects are in various stages of completion. We conducted the audit in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

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## FINDINGS AND RECOMMENDATIONS

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### **FINDING 1: ACCOUNTING FOR HOPE VI AND OTHER GRANT/ PRIVATE FUNDING**

#### **SYNOPSIS**

Our analysis of DCHA's monthly bank statements for the HOPE VI Program revealed that DCHA did not maintain HOPE VI grant funds in a separate bank account as required by the HOPE VI grant agreements. Instead, HOPE VI funds were deposited and commingled with other types of funds into one bank account, and then re-deposited and disbursed from another bank account. Further, DCHA did not establish a system of recordkeeping that would separately account for expenditures made for each HOPE VI project, and did not maintain a monthly summary or schedule to show the amount of funds disbursed on HOPE VI Program activities. The lack of an effective recordkeeping system, coupled with the commingling of funds, resulted in our inability to identify HOPE VI grant fund disbursements with specific HOPE VI program costs.

These conditions occurred because DCHA did not fully comply with all of the provisions of the HOPE VI grant agreements and the federal regulations for the maintenance and accounting of HOPE VI grant funds. In general, DCHA's senior officials did not ensure that established criteria for tracking program costs were followed. As a result, those responsible for oversight of the HOPE VI grant fund cannot be assured that grant funds were used for HOPE VI activities or disbursed for valid, reimbursable program costs.

#### **DISCUSSION**

DCHA neither fully complied with provisions of the HOPE VI grant agreements nor with federal regulations regarding the maintenance and accounting of HOPE VI grant funds. These matters are discussed in more detail below.

**Commingling of HOPE VI Grant Funds.** The HOPE VI grant agreements prohibit the commingling of grant funds with funds from any other source. For example, Article IV of the HOPE VI Grant agreement for the Wheeler Creek HOPE VI Revitalization Project (Covenant and Conditions) provides, in part:

In its accounts and recordkeeping, the Grantee will not commingle HOPE VI Grant funds with funds from any other Federal, state or local government agencies. (Such other funds may be used to carry out the Revitalization plan, so long as they are not commingled in the Grantee's accounts and record keeping.) The Grantee will ensure that HOPE VI grant funds are not used to duplicate work which is funded under any other Federal program, or from any other source of funding

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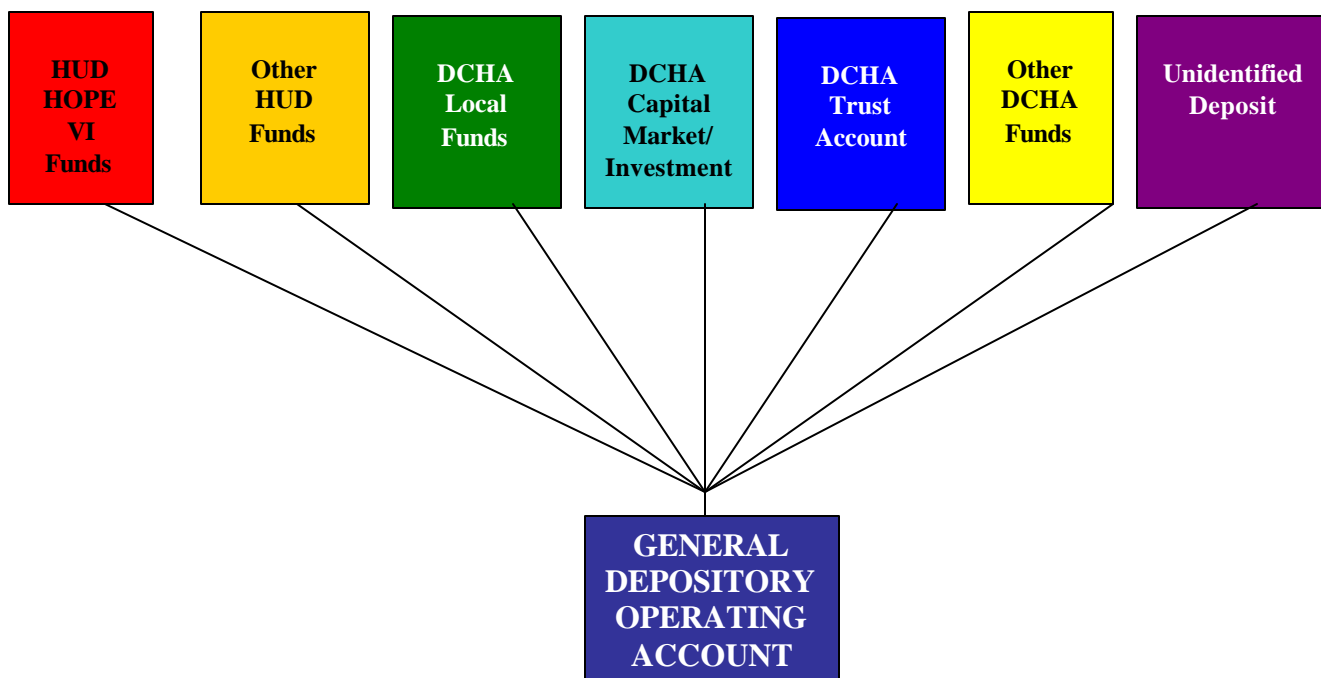
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under the Revitalization Plan, and will establish controls to assure non-duplication of funding.

**Analysis of Bank Statements.** In order to gain an understanding of DCHA's disbursement cycle for HOPE VI funds, we analyzed bank statements maintained by DCHA for the General Depository Operating Account (GDOA) for the months ending July 31, 2001, and August 31, 2001, covering a period of July 1, 2001, through August 31, 2001. The analysis showed that deposits in the GDOA for the month of July 2001 came from seven different sources (of which one source of funds was HOPE VI funds), and that deposits in the GDOA for the month of August 2001 came from six different sources (which also included HOPE VI funds).

Based upon our analysis and discussions with DCHA officials, we determined that HOPE VI funds had been commingled with other funds. Using the July 2001 bank statement, the illustration below shows funds from seven different sources that were deposited and commingled into the GDOA.



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We discussed the commingling of HOPE VI grant funds with officials of DCHA's Office of Finance. The officials disagreed with our assessment of the grant provision pertaining to the commingling of grant funds, and informed us that Article X of the grant agreement requires that financial records – rather than bank accounts – of programs be maintained separately.

While we agree that financial records of programs are required to be separately maintained, the provisions of the grant agreements clearly require HOPE VI grant funds to be maintained separately from other types of funds. We discussed this with a responsible HUD representative, who agreed that HOPE VI funds should be maintained in a separate bank account. The commingling of HOPE VI funds with other types of funds inhibits accurate accountability, obscures audit trails, and represents a basic breakdown in sound internal controls for the accountability of funds from different funding sources.

**Accounting for HOPE VI Funds.** The Code of Federal Regulations (CFR) also contains provisions that require funds to be accounted for separately. 24 CFR § 85.20 – Standards for financial management systems states, in part:

- (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to --
  - (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
  - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

**Hope VI Fund Expenditures.** Our review of records revealed that DCHA did not establish a system of recordkeeping that would separately account for HOPE VI Program expenditures. Consequently, DCHA could not provide us a monthly summary or schedule to show the amount of funds disbursed for HOPE VI Program activities.

Upon receipt of HOPE VI funds from HUD, the funds pass through two bank accounts: the GDOA (for deposit) and the Public Fund Checking Account (PFCA), from which disbursements to vendors, contractors, developers, and other third parties are made for HOPE VI activities. With the exception of Section 8 Program funds, all program funds that

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DCHA receives are lumped together into the GDOA. DCHA officials explained that funds are transferred from the GDOA to the PFCA on an as needed basis in order to pay bills. The PFCA is the only checking account that DCHA maintains for bill paying purposes. We noted that the total monthly disbursements for HOPE VI Program costs did not agree with the monthly amount deposited. Moreover, we could not identify amounts of HOPE VI funds deposited or the amount of HOPE VI funds disbursed.

DCHA maintains its accounting record of disbursements by vendors rather than by program (such as HOPE VI). However, vendors often supply goods or render services to DCHA for different programs simultaneously. As such, DCHA pays for vendor services with one check, and records the transaction by the total amounts paid to each vendor, with no accompanying breakdown of the amounts that should be charged to each program. For example, a contractor/developer may have been selected to provide services for multiple District projects, such as a specific HOPE VI development project and for other DCHA housing projects (non HOPE VI). When the contractor/developer submits an invoice, the invoice amount is paid for by local DCHA funds. One check is prepared and drawn on the PFCA account to pay for both types of services.

We requested DCHA to prepare a reconciliation report to identify all disbursements for HOPE VI activities for the month of July 2001. In response, DCHA officials stated that no regulation requires DCHA to prepare a monthly reconciliation of HOPE VI funds and, therefore, declined our request. DCHA officials informed us that payments are made to vendors for services rendered for various programs in one check, and because the payments are recorded by vendor, they could not determine which payments are exclusively for the HOPE VI Program.

Finally, DCHA officials explained to us that DCHA uses a Fund Accounting System to maintain its financial records. According to DCHA's rationale, having HOPE VI funds in the same bank account with other types of funds does not result in the commingling of funds. DCHA described the Fund Accounting System as an accounting system used to track specific program costs by using a designated fund number. Working with DCHA personnel on multiple occasions, we tried to track and identify specific HOPE VI income and expenditures by project, but were unsuccessful. Based on these repeated attempts to use the Fund Accounting System to track HOPE VI project income and expenditures, we concluded that DCHA had limited means to account for commingled funds.

## CONCLUSION

DCHA deposited and commingled HOPE VI grant funds with other types of funds into one bank account, and did not establish a system of recordkeeping that would separately account for HOPE VI Program expenditures. DCHA did not have a monthly summary or schedule to show the amount of funds disbursed on HOPE VI Program activities. As a result of

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commingling of funds and inadequate recordkeeping, we could not determine whether the HOPE VI grant funds had been properly disbursed for HOPE VI program expenditures.

### RECOMMENDATION 1

We recommend that the District of Columbia Housing Authority Director obtain a separate bank account for the maintenance of HOPE VI grant funds for HOPE VI projects.

#### DCHA Response

DCHA management disagrees with the recommendation, stating that there is no mandatory requirement for establishing separate bank accounts for HOPE VI grant funds. They also contend that this recommendation does not maximize the use of the funds in accordance with good cash management practices.

#### OIG Comment

DCHA commingled HOPE VI grant funds with other type of funds into one back account, and has not established a system of recordkeeping that separately accounts for HOPE VI program expenditures. The grant agreements provide that HOPE VI funds are not to be commingled with other types of funds in either DCHA's accounts or in its recordkeeping. In order for the funds not to become blended, mixed, or combined, they would have to be maintained separately. When requested, DCHA could not provide a reconciliation report to identify the sources of disbursements for HOPE VI activities. Once disbursed, there was no way to determine what fund sources were being used. We request that DCHA reconsider its position on this recommendation and provide a response to this final report that meets the intent of the recommendation.

### RECOMMENDATION 2

We recommend that the District of Columbia Housing Authority Director develop and implement an accounting system that can separately track costs for HOPE VI Program activities.

#### DCHA Response

DCHA management disagrees with the recommendation. They state that the current DCHA accounting system provides the necessary linkage of HOPE VI grant allocations and expenditures.



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### **OIG Comment**

As shown in our report, seven distinct funds were deposited into one bank account. DCHA could not provide a reconciliation report to identify the sources of disbursements for HOPE VI activities. DCHA commingled HOPE VI grant funds with other types of funds into one bank account, and its system of recordkeeping could not separately account for HOPE VI Program expenditures. Once funds were deposited into DCHA's General Depository Operating Account, an adequate audit trail did not exist to enable the auditors to determine how the actual drawdowns were used. Using DCHA's accounting system, we tried to track and identify specific HOPE VI income and expenditures by project, but were unsuccessful. We concluded that DCHA's system of fund accounting could not be used to separately account for HOPE VI project funds and expenditures. We request that DCHA reconsider its position on this recommendation and provide a response to this final report that meets the intent of the recommendation.

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### **FINDING 2: DOCUMENTING WHEELER CREEK HOPE VI REVITALIZATION PROJECT EXPENDITURES**

#### **SYNOPSIS**

DCHA did not maintain sufficient documentation to support 45 percent of the payments made to contractors/developers for the Wheeler Creek HOPE VI Revitalization Project. Specifically, our review disclosed that DCHA disbursed \$13.2 million, which was not supported with invoices or other payment documentation. We also found \$1.4 million in questionable expenditures for related project costs. As a result, \$14.6 of the \$32.2 million in disbursements made for the Wheeler Creek HOPE VI Revitalization Project are unsupported or questionable expenditures. These disbursements were made using HOPE VI grant funds and other funds commingled by DCHA.

#### **DISCUSSION**

The criteria used for our review of HOPE VI program expenditures included federal regulations that provide guidance for the administration of HOPE VI funds by participating public housing authorities such as DCHA. Federal guidance is found in Title 24 of the CFR, Part 85, Administration Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Tribal Governments.

**Provisions of the HOPE VI Grant Agreement.** The Wheeler Creek HOPE VI Revitalization Grant Agreement, Article XI, Recordkeeping/Access Requirements/Audits, states:

1. The Grantee will keep records in accordance with 24 CFR 85.20 that facilitate an effective audit to determine compliance with program requirements, and which fully disclose: (a) the amount and disposition of funds received under this HOPE VI grant, including sufficient records that document the reasonableness and necessity of each expenditure . . .
2. The Grantee will comply with and be subject to (a) the retention and access requirements for records under 24 CFR 85.41 and (b) the non-Federal audit requirements under 24 CFR 85.26. . . .

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**Federal Regulations on Financial Administration.** Title 24 CFR § 85.20(b)(2)&(6) provide the following:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income . . . Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. . . .

**Wheeler Creek HOPE VI Revitalization Project Funding.** In March 1998, HUD awarded DCHA \$20,300,000 in HOPE VI grant funds to be used for the Wheeler Creek HOPE VI Revitalization Project. The total budgeted cost of the project was \$54,413,010, comprised of funding from HUD, DCHA, private funding, and other federal agencies, such as the Federal Housing Administration. The schedule below shows the amounts of the various funding sources:

### **Wheeler Creek HOPE VI Revitalization Project Funding**

HOPE VI	\$20,300,000
Other Public Housing Funds	\$10,979,983
Other Federal Funds	\$ 5,650,602
Non-Federal Funds	<u>\$17,482,425</u>
Total	\$54,413,010

**Schedule of Audited Costs.** As a part of our audit, we reviewed documentation to support \$32.2 million of \$37.4 million in disbursements made by DCHA contractors/developers for project expenditures through January 25, 2002. Of this \$32.2 million, \$18.7 million was identified in HUD documents as the total amount drawn down in HOPE VI grant funds for the Wheeler Creek HOPE VI Revitalization Project. Contractors /developers were paid on a cost reimbursement basis, and submitted Payment Request For Work Performed documents along with receipts/invoices to DCHA to support payment requests.

During our review, we found many instances where there were: (1) no invoices to support payments; (2) no receipts to support the amount claimed on contractors/developers invoices; (3) invoices that did not have valid receipts to support the amount of invoices; and (4) duplicate invoices. The failure to segregate and allocate invoiced costs to specific programs prevented us from determining whether duplicate payments were made for the duplicate invoices.

## FINDINGS AND RECOMMENDATIONS

Table 2 below shows the results of our review.

<b>Table 2. Schedule of Audited Costs</b>			
<b>Wheeler Creek HOPE VI Project Expenditures</b>	<b>Draft Reported Amounts</b>	<b>Final Report Adjusted Amounts</b>	<b>Percentage of Final Report Adjusted Amounts of Audited Expenditures</b>
Supported Expenditures	\$4,372,381	\$17,609,461	55%
<b>Unsupported Expenditures<sup>1</sup></b>	<b>\$26,395,178</b>	<b>\$13,158,098</b>	<b>41%</b>
<b>Questioned Expenditures<sup>2</sup></b>	<b>\$1,388,942</b>	<b>\$1,388,942</b>	<b>4%</b>
Total Audited Expenditures	\$32,156,501	\$32,156,501	100%

The above chart represents the total amount of expenditures that were audited of the Wheeler Creek HOPE VI Revitalization Project. DCHA had \$13.2 million of unsupported expenditures, which represent payments that either had no invoices, no receipts, insufficient support, duplicate invoices, or other problems. In addition, our review found that many of the expenditures payments were questioned, in the amount of \$1.4 million. Questioned costs are costs that represent payments that appeared unreasonable based on the fact that the documentation provided to support the payment could not be validated or reasonably matched to the payment. The numbers in the chart for both supported and unsupported expenditures have been adjusted based on documentation provided by DCHA in response to the draft report.

### **DCHA Accounting for the Wheeler Creek HOPE VI Revitalization Project**

**Disbursements.** At the commencement of our review, we requested DCHA to provide us with a schedule showing the amount of HOPE VI funds disbursed for the Wheeler Creek HOPE VI Revitalization Project. DCHA provided us a schedule showing the total amount of funds expended for the project, which included funds from other sources. We again requested a schedule listing only HOPE VI funds expended for the project; however, DCHA was unable to fulfill this request.

<sup>1</sup> Details of this figure are displayed in Exhibit B.

<sup>2</sup> Details of this figure are displayed in Exhibit C.

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Recipients and sub-recipients of HOPE VI grant funds are required by Title 24 CFR § 85.20 to maintain records that contain information pertaining to grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays or expenditures, and income. Accordingly, DCHA should have been able to make such information available for our audit in connection with activities related to the HOPE VI award for the Wheeler Creek HOPE VI Revitalization Project. Further, DCHA could not provide us with a detailed (line item) budget for the project to ensure that disbursements for HOPE VI funds made to contractors/developers were being properly allocated to the proper line items.

**Site Work Loan Agreement and Assignment.** We held several meetings with DCHA officials concerning the inadequate documentation to support disbursements to contractors/developers. At our second meeting, DCHA officials provided us with a Site Work Loan Agreement and Assignment (Loan) as the explanation for the non-existence of supporting documentation.

The officials explained that DCHA entered into the Loan with the developer of the Wheeler Creek HOPE VI Revitalization Project on December 30, 1998, for \$18,542,236. According to DCHA officials, the Loan permitted DCHA to advance funds to the developer. However, this does not explain why, approximately 3 years after the start of the Wheeler Creek HOPE VI Revitalization Project, DCHA did not have documentation on file to support payments made to the developer. DCHA should have requested supporting documentation for the expenses incurred by the developer to enable it to comply with terms of the grant agreement and federal law.

The grant agreement permits DCHA to provide loans/advances to a contractor/developer; however, it requires a full accounting as to how the money was spent. We were told by DCHA officials that the documentation to support the payments was maintained by the developer. We informed DCHA that the federal regulations and the grant agreement require DCHA to maintain documentation to support the disbursement of HOPE VI funds.

## CONCLUSION

DCHA's records for the Wheeler Creek HOPE VI Revitalization Project disclosed unsupported expenditures of \$13.2 million and questionable expenditures of \$1.4 million for project costs that had not been properly documented. As a result, the OIG is questioning \$14.6 million in disbursements made for those expenditures.

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### **RECOMMENDATION 3**

We recommend that the District of Columbia Housing Authority Director obtain documentation in the form of invoices, receipts, and other documentation to support the reasonableness and necessity of each expenditure for the Wheeler Creek HOPE VI Revitalization Project in accordance with the terms of the grant agreement and federal law.

#### **DCHA Response**

DCHA management disagrees with the recommendation. They believe that they have provided detailed explanations to support all expenditures for the Wheeler Creek HOPE VI Revitalization Project.

#### **OIG Comment**

OIG auditors did not decline to review pertinent documents. The audit staff reviewed all pertinent documents relative to this audit that DCHA had in its possession and made available to the auditors. A DCHA official suggested that the auditors go to the developer's office to review invoices because it was a cumbersome task for DCHA to maintain every supporting document for payment. However, Title 24 CFR § 85.20 requires that recipients (in this case, DCHA) and subrecipients maintain records which contain information pertaining to grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities outlays or expenditures, and income. We request that DCHA reconsider its position on the recommendation and provide a response to this final report that meets the intent of the recommendation.

### **RECOMMENDATION 4**

We recommend that the District of Columbia Housing Authority Director develop and implement policies and procedures to ensure that developers provide DCHA supporting documentation for expenditures prior to making payment of HOPE VI grant funds.

#### **DCHA Response**

DCHA management disagrees with the finding that precipitated this recommendation. They state, however, that they are in the process of enhancing DCHA's policies and procedures manual, which will document the processes for invoicing and disbursing HOPE VI grant funds.

#### **OIG Comment**

While DCHA disagreed with the basis for this recommendation, the planned action to update policies and procedures meets the intent of the recommendation, as long as the updated

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policies and procedures are consistent with Title 24 CFR § 85.20 requirements and requirements of the HOPE VI grant agreements. We request that DCHA provide a completion date for revised policies and procedures and provide our Office a copy of the revised policies upon completion.

### **RECOMMENDATION 5**

We recommend that the District of Columbia Housing Authority Director develop and implement policies and procedures to ensure that records are maintained to identify the type of funds disbursed for projects (i.e., HOPE VI funds, private funds, other federal funds, etc.).

### **DCHA Response**

DCHA management disagrees with the recommendation. They believe that their current accounting system provides the necessary linkage of HOPE VI grant allocations and expenditures. They also state that the enhancement of their policies and procedure manual will document processes for HOPE VI accounting and record keeping.

### **OIG Comment**

While DCHA management disagreed with the recommendation, the planned actions meet the intent of the recommendation, as long as the updated policies and procedures are consistent with Title 24 CFR § 85.20 requirements and requirements of HOPE VI grant agreements. We request that DCHA provide a completion date for enhancement of the policies and procedures and provide our Office a copy of the updated policies and procedures once completed.